



A REPORT  
TO THE  
MONTANA  
LEGISLATURE

FINANCIAL-COMPLIANCE AUDIT

# *Department of Environmental Quality*

*For the Two Fiscal Years Ended  
June 30, 2012*

DECEMBER 2012

LEGISLATIVE AUDIT  
DIVISION

12-16

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**FINANCIAL-COMPLIANCE AUDITS**

Financial-compliance audits are conducted by the Legislative Audit Division to determine whether an agency's financial operations are properly conducted, the financial reports are presented fairly, and the agency has complied with applicable laws and regulations. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States Government Accountability Office. Financial-compliance audit staff members hold degrees with an emphasis in accounting. Most staff members hold Certified Public Accountant (CPA) licenses.

Government Auditing Standards, the Single Audit Act Amendments of 1996 and OMB Circular A-133 require the auditor to issue certain financial, internal control, and compliance reports. This individual agency audit report is not intended to comply with these reporting requirements and is therefore not intended for distribution to federal grantor agencies. The Legislative Audit Division issues a statewide biennial Single Audit Report which complies with the above reporting requirements. The Single Audit Report for the two fiscal years ended June 30, 2011, was issued March 29, 2012. The Single Audit Report for the two fiscal years ended June 30, 2013, will be issued by March 31, 2014. Copies of the Single Audit Report can be obtained by contacting:

Single Audit Coordinator  
Office of Budget and Program Planning  
Room 277, State Capitol  
P.O. Box 200802  
Helena, MT 59620-0802

Legislative Audit Division  
Room 160, State Capitol  
P.O. Box 201705  
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# LEGISLATIVE AUDIT DIVISION

Tori Hunthausen, Legislative Auditor  
Deborah F. Butler, Legal Counsel



Deputy Legislative Auditors  
Cindy Jorgenson  
Angus Maciver

December 2012

The Legislative Audit Committee  
of the Montana State Legislature:

This is our financial-compliance audit report on the Department of Environmental Quality for the two fiscal years ended June 30, 2012. Our report contains four recommendations related to following state accounting policy for accruals, transferring excess money from the hard-rock mining debt service fund, calculating storm water permits properly, and classifying abandoned mine reclamation accounts in accordance with state law.

We thank the department director and staff for their assistance and cooperation during the audit.

Respectfully submitted,

*/s/ Tori Hunthausen*

Tori Hunthausen, CPA  
Legislative Auditor



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## APPOINTED AND ADMINISTRATIVE OFFICIALS

### Department of Environmental Quality

Richard Opper, Director  
 Tom Livers, Deputy Director  
 Dean Rude, Chief Financial Officer  
 John Arrigo, Enforcement Division Administrator  
 Judy Hanson, Permitting and Compliance Division Administrator  
 George Mathieus, Planning, Prevention and Assistance Division Administrator  
 Jenny Chambers, Remediation Division Administrator

			<u>Term Expires</u>
<b>Board of Environmental Review</b>	Joe Russell, Chairman	Kalispell	January 1, 2015
	Larry Anderson	Great Falls	January 1, 2013
	Heidi Kaiser	Park City	January 1, 2015
	Marvin Miller	Butte	January 1, 2013
	Larry Mires	Glasgow	January 1, 2015
	Robin Shropshire	Helena	January 1, 2013
	Joseph Whalen	Miles City	January 1, 2013
<b>Petroleum Tank Release Compensation Board</b>	Roger Noble, Presiding Officer	Kalispell	June 30, 2013
	Jerry Breen	Choteau	June 30, 2013
	Kate Cassidy	Whitefish	June 30, 2014
	Karl Hertel	Moore	June 30, 2013
	Timothy McDermott	Bozeman	June 30, 2015
	Roy Morris	Butte	June 30, 2015
	Steve Sendon	Bozeman	June 30, 2014

For additional information concerning the Department of  
Environmental Quality, contact:

Lisa Peterson, Public Affairs Coordinator  
 Department of Environmental Quality  
 P.O. Box 200901  
 Helena, MT 59620-0901  
 e-mail: lpeterson@mt.gov



# MONTANA LEGISLATIVE AUDIT DIVISION

## FINANCIAL-COMPLIANCE AUDIT

### Department of Environmental Quality For the Two Fiscal Years Ended June 30, 2012

DECEMBER 2012

12-16

REPORT SUMMARY

The Department of Environmental Quality (DEQ) administers environmental protection and enhancement efforts of the state of Montana. As an agency created and empowered by the legislature to encourage the maintenance of a clean and healthful environment mandated by the Constitution, DEQ monitors environmental conditions, issues permits and evaluates permit compliance for activities with defined impacts on the environment. DEQ also works to ensure remediation of environmental damage in Montana and enforces the state's environmental laws. The four recommendations in the report focus on improving compliance with state laws and policy regarding accounting for certain department operations.

### Context

DEQ promotes environmental quality through programs to promote air quality; improve water supply, wastewater, and solid waste disposal infrastructure; regulate the discharge of pollutants by issuing permits and assessing compliance with the conditions of the permits; enforce the environmental laws of the state; and encourage remediation and reclamation at the sites of past natural resource damages.

pricing of storm water permits and the accounting fund placement of the abandoned mine land reclamation account required by state law.

### Results

The report recommends DEQ limit the encumbrance of current budget authority for expenditure in future years to valid obligations as defined in state accounting policy. Another section recommends excess money in the hard-rock mining debt services fund be transferred to a related special revenue fund where the resources can be invested and used as directed by state law. Other issues address compliance with regulations regarding the

#### Recommendation Concurrence

Concur	4
Partially Concur	0
Do Not Concur	0

**Source: Agency audit response included in final report.**

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# Chapter I – Introduction

## **Introduction**

We performed a financial-compliance audit of the Department of Environmental Quality (department) for the two fiscal years ended June 30, 2012. The objectives of the audit were to:

1. Determine the department's compliance with selected state and federal laws and regulations.
2. Obtain an understanding of the department's control systems to the extent necessary to support our audit of the department's financial schedules and, if appropriate, make recommendations for improvements in management and internal controls of the department.
3. Determine the implementation status of prior audit recommendations.
4. Determine whether the department's financial schedules present fairly the results of operations and changes in fund balances for each of the two fiscal years ended June 30, 2012.

This report contains four recommendations to the department. In accordance with §5-13-307, MCA, we analyzed and disclosed, if significant, the costs of implementing the recommendations made in this report.

As required by §17-8-101(6), MCA, we audited and are reporting on the reasonableness of Internal Service Fund type fees and fund equity balances at the department. The statute requires fees and charges for services, which are deposited into Internal Service Funds, be based upon commensurate costs. The department has one Internal Service Fund, which funds the Central Management Program and is administered by the Office of Financial Services. We reviewed the Internal Service Fund activity and determined the rates are commensurate with costs and fund equity balances are reasonable for the operations of the fund.

## **Background**

The department administers certain environmental and natural resources functions of state government. The department is organized along the functional lines of planning, permitting, enforcement, and remediation. Total authorized full-time equivalent employees (FTE) for the department were 438.48 as of May 2012.

**Planning, Prevention and Assistance Program** (83.50 FTE) develops air, water, waste management, and energy plans to protect Montana's resources. The program monitors environmental conditions, maintains data on the condition of Montana's environment, and encourages businesses and government units to adopt sound environmental practices.

**Permitting and Compliance Program** (207.14 FTE) administers the permitting and compliance activities related to various federal and state statutes, including air quality, water quality, solid waste, hazardous waste, junk vehicle, mining, mine reclamation, public water supply, and sanitation in subdivision laws. The program reviews and assesses all environmental permit applications, prepares appropriate environmental impact documents, and inspects facilities to determine compliance with permit terms and the underlying laws and regulations. The division is also responsible for financial assurance activities relative to some of the permitting programs.

**Enforcement Program** (14.73 FTE) implements and tracks the department's formal enforcement activities, investigates and validates citizen complaints, and ensures that spills are cleaned up. Environmental statutes administered by the department authorize administrative or judicial enforcement actions that may seek corrective actions and penalties for violations of permit requirements or standards. Enforcement actions are initiated against a wide range of regulated entities including public water suppliers, wastewater dischargers, air emissions sources, underground storage tank owners and operators, solid waste or hazardous waste management facilities, subdivisions, junk vehicle owners, asbestos abatement contractors, gravel pits, precious metal mines, and coal mines.

**Remediation Program** (63.01 FTE) is responsible for overseeing investigation and cleanup activities at state and federal Superfund sites; reclaiming abandoned mine lands; regulating, permitting, and licensing underground storage tanks; implementing corrective actions at sites with leaking underground storage tanks; and overseeing groundwater remediation at sites where agricultural and industrial chemical spills have caused groundwater contamination.

**Central Management Program** (64.10 FTE) consists of the director's office, a financial services office, and an information technology office. The director's office includes the director's staff, the deputy director, an administrative officer, a public information officer, a centralized legal services unit, and a centralized personnel office. The financial services office provides budgeting, accounting, payroll, internal auditing, procurement and contract management support to other divisions. The information technology office provides information technology services support to other divisions.

**Petroleum Tank Release Compensation Board** (6 FTE) oversees the Petroleum Tank Release Cleanup Fund, established by §75-11-313, MCA, which reimburses eligible owners for the costs of petroleum release cleanup. Fund administration is a joint responsibility of the board and the department.

**Board of Environmental Review** (BER) is established by §2-15-3502, MCA, as a quasi-judicial board consisting of seven members appointed by the governor. BER reviews administrative decisions made by the department that are appealed to it by affected parties as provided by statute. BER is attached to the department for administrative purposes only.

### **Prior Audit Recommendations**

The prior financial-compliance audit report of the Department of Environmental Quality for the two fiscal years ended June 30, 2010, contained four recommendations. The department implemented three recommendations and did not implement one recommendation. The recommendation not implemented, with which the department did not concur, directed the department to reimburse the General Fund from payments made by responsible parties for remediation costs incurred in the Upper Blackfoot Mining Complex, including interest prior to the settlement. Although the department took no action, the Legislature, in Session Laws 2011, Ch. 312, transferred \$4.4 million from the Orphan Share Fund, a fund dedicated to covering remediation costs on properties where responsible parties cannot be held accountable, to finance local education costs. The transfer provided substitute funding for a function which is heavily supported by the General Fund. Therefore, we make no further recommendation at this time.



## Chapter II – Findings and Recommendations

### **Invalid Accruals**

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**The department recorded expenditures for indirect costs and legal expenses that did not meet the valid obligation criteria set in state law.**

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Section 17-7-302(1), MCA, states, in part, that any valid obligation not paid within the fiscal year shall be recorded as an expenditure of an appropriation in effect at the end of each fiscal year. In this way, appropriation authority from the current year is expended to pay the obligation when work is completed. State accounting policy specifies that commitments related to unperformed legally binding contracts in process at year-end may be accrued as expenditures but services should, as a general rule, be charged against the fiscal year in which the services are received. The following two sections describe instances where expenditures were recorded when the activity did not satisfy the valid obligation criteria of state law as implemented in state policy.

### **Indirect Costs**

The department receives federal Nonpoint Source grant funds each year and subgrants these moneys to public and private entities for local projects. At fiscal year-end, the department accrues expenditures for the value of the contracts and the four percent indirect costs allowed by the federal government for contract administration. Since the indirect cost amount represents charges for services provided by the department in administering the grants, not contracted services, these costs do not meet the valid obligation criteria set by state law and policy. As a result, federal expenditures were overstated by \$43,740 and \$34,639 in fiscal years 2011-12 and 2010-11, respectively.

### **Legal Expenses**

The department recorded \$83,200 in expenditures at June 30, 2011, for estimated attorney fees to be paid in connection with two cases, including an added four percent in indirect costs. Since none of the expenditures were supported by contracts, the court had not decided the cases, nor had the parties settled, there were no valid obligations for which expenditures should have been recorded. A department official said these legal expenditures were errors that had not been detected.

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**RECOMMENDATION #1**

*We recommend the department limit the accrual of expenditures to those allowed by state law and policy.*

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## **Hard-rock Transfers**

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**The department should transfer balances in excess of debt service requirements from the hard-rock debt service fund as required by state law.**

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The department administers the hard-rock mining debt service and state special revenue funds established in state law. Section 82-4-315, MCA, states that excess money in the hard-rock mining reclamation debt service fund should be transferred to the state special revenue fund, where it can be invested to earn interest. State law does not explicitly give authority to invest balances of the debt service fund.

During fiscal year 2011-12, the 8.5 percent share of the metalliferous mines license tax payments distributed to the hard-rock mining reclamation debt service fund by the Department of Revenue accumulated to an amount exceeding debt service payments by more than \$1 million. By not transferring the tax revenue in excess of debt service requirements to the state special revenue fund, the department did not earn approximately \$1,500 in interest income for the hard-rock state special revenue fund in the fiscal year. The department can capture these interest earnings by monitoring the debt service fund and transferring the excess money for investment as it is received.

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**RECOMMENDATION #2**

*We recommend the department transfer balances in excess of those needed for debt service payments from the hard-rock debt service fund to the hard-rock state special revenue fund as required by state law.*

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## **Storm Water Permits**

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**The department charged storm water permit fees in excess of rates set in administrative rules.**

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State law authorizes the Board of Environmental Review to establish fees assessed by the department using the administrative rule-making process. The rules set levels of fees for storm water permits, based on the acreage impacted by the activity. The storm water permit fee information is entered into a federal database. The database system does not allow decimals to be entered and rounds parcel size up or down to the nearest acre. When testing a sample of permit fees, we noted one instance where an applicant was overcharged \$75 for the fee because the acreage in the permit was rounded to a level with a higher fee. As a result, fees charged do not always comply with state law and regulations.

In fiscal year 2010-11, the department issued 474 storm water permits for \$415,289. We estimated the maximum potential overcharge to the public to be \$12,500. Department personnel said there are no formal procedures in place to detect errors in fees charged caused by rounding acreage input in the database.

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### **RECOMMENDATION #3**

*We recommend the department implement a procedure to achieve compliance with the fee schedule for storm water permits set in administrative rules.*

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## **Abandoned Mine Reclamation Account**

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**The department maintains the abandoned mine reclamation account in the state special revenue fund rather than the federal special revenue fund as specified in state law.**

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The department received federal grant funds which could be set aside for reclamation activities on abandoned mine sites on federal, state, or private lands for which there is no continuing reclamation responsibility under state or federal law. Section 82-4-1006, MCA, enacted in 2007, defines the conditions under which the funds could be used and places the moneys in the federal special revenue fund. In 2001, the department had moved the assets to the state special revenue fund in response to an audit

recommendation. However, the subsequent statute specifically placing the abandoned mine reclamation account in the federal special revenue fund has precedence over application of the general provision of the state's fund structure law. The abandoned mine reclamation account had a \$7,827,760 fund balance at June 30, 2012.

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**RECOMMENDATION #4**

*We recommend the department record the abandoned mine reclamation account moneys in the federal special revenue fund as required by state law.*

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# **Independent Auditor's Report and Department Financial Schedules**



## LEGISLATIVE AUDIT DIVISION

Tori Hunthausen, Legislative Auditor  
Deborah F. Butler, Legal Counsel



Deputy Legislative Auditors  
Cindy Jorgenson  
Angus Maciver

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee  
of the Montana State Legislature:

We have audited the accompanying Schedules of Changes in Fund Balances, Schedules of Total Revenues & Transfers-In, and Schedules of Total Expenditures & Transfers-Out of the Department of Environmental Quality (department) for each of the fiscal years ended June 30, 2012, and 2011. The information contained in these financial schedules is the responsibility of the department's management. Our responsibility is to express opinions on these financial schedules based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial schedules. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial schedule presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in note 1, these financial schedules are prepared on the basis of Montana state accounting policy, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The schedules are not intended to be a complete presentation and disclosure of the department's assets, liabilities, and cash flows.

In our opinion, the financial schedules referred to above present fairly, in all material respects, the results of operations and changes in fund balances of the Department of Environmental Quality for each of the fiscal years ended June 30, 2012, and 2011, in conformity with the basis of accounting described in note 1.

Respectfully submitted,

*/s/ Cindy Jorgenson*

Cindy Jorgenson, CPA  
Deputy Legislative Auditor

November 8, 2012



DEPARTMENT OF ENVIRONMENTAL QUALITY  
SCHEDULE OF CHANGES IN FUND BALANCES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Debt Service Fund	Capital Projects Fund	Internal Service Fund	Private Purpose Trust Fund	Permanent Fund
FUND BALANCE: July 1, 2011	\$ (1,482,389)	\$ 290,751,453	\$ (2,752,788)	\$ 1,770,902	\$ 2,002,030	\$ 158,256	\$ 25,428,101	\$ 9,419,510
ADDITIONS								
Budgeted Revenues & Transfers-In	12,500	22,891,439	43,408,490			6,666,162		
Nonbudgeted Revenues & Transfers-In	502,598	27,553,881	8,568,226	636,117		7,952	1,863,161	2,248,305
Prior Year Revenues & Transfers-In Adjustments	(2,395)	4,522,942	127,186	3,042,584		(187)		
Direct Entries to Fund Balance	5,099,204	15,066,591	(8,920,670)	1,767,745	(290,613)		84,285	
Total Additions	5,611,907	70,034,853	43,183,232	5,446,446	(290,613)	6,673,927	1,947,446	2,248,305
REDUCTIONS								
Budgeted Expenditures & Transfers-Out	5,175,685	29,297,367	34,816,250			6,691,802		
Nonbudgeted Expenditures & Transfers-Out	(997)	29,715,242	8,590,684	4,006,103		61,908	709,554	
Prior Year Expenditures & Transfers-Out Adjustments	20,023	(9,398,848)	(48,504)			2,816		
Total Reductions	5,194,711	49,613,761	43,358,430	4,006,103	0	6,756,526	709,554	0
FUND BALANCE: June 30, 2012	\$ (1,065,193)	\$ 311,172,545	\$ (2,927,986)	\$ 3,211,245	\$ 1,711,417	\$ 75,657	\$ 26,665,993	\$ 11,667,815

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment.  
Additional information is provided in the notes to the financial schedules beginning on page A-9.

DEPARTMENT OF ENVIRONMENTAL QUALITY  
SCHEDULE OF CHANGES IN FUND BALANCES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Debt Service Fund	Capital Projects Fund	Internal Service Fund	Private Purpose Trust Fund	Permanent Fund
FUND BALANCE: July 1, 2010	\$ <u>(1,892,570)</u>	\$ <u>280,704,441</u>	\$ <u>(21,184,473)</u>	\$ <u>792,268</u>	\$ <u>751,972</u>	\$ <u>187,526</u>	\$ <u>23,230,021</u>	\$ <u>7,821,057</u>
ADDITIONS								
Budgeted Revenues & Transfers-In	3,000	19,601,005	48,323,015		3,411	6,676,509		
Nonbudgeted Revenues & Transfers-In	288,638	18,336,891	23,978,066	1,197,892	1,608,855	6,139	2,911,344	1,598,453
Prior Year Revenues & Transfers-In Adjustments		(411,394)	16,399,748	(30,700)		(7,102)	510	
Direct Entries to Fund Balance	5,389,133	15,107,828	(10,895,200)	1,401,641	(362,208)			
Total Additions	<u>5,680,771</u>	<u>52,634,330</u>	<u>77,805,629</u>	<u>2,568,833</u>	<u>1,250,058</u>	<u>6,675,546</u>	<u>2,911,854</u>	<u>1,598,453</u>
REDUCTIONS								
Budgeted Expenditures & Transfers-Out	5,565,895	28,425,041	40,385,461			6,497,535		
Nonbudgeted Expenditures & Transfers-Out	(416)	14,688,978	24,270,151	1,590,199		227,466	683,774	
Prior Year Expenditures & Transfers-Out Adjustments	(294,889)	(526,701)	(5,281,668)			(20,185)	30,000	
Total Reductions	<u>5,270,590</u>	<u>42,587,318</u>	<u>59,373,944</u>	<u>1,590,199</u>	<u>0</u>	<u>6,704,816</u>	<u>713,774</u>	<u>0</u>
FUND BALANCE: June 30, 2011	\$ <u>(1,482,389)</u>	\$ <u>290,751,453</u>	\$ <u>(2,752,788)</u>	\$ <u>1,770,902</u>	\$ <u>2,002,030</u>	\$ <u>158,256</u>	\$ <u>25,428,101</u>	\$ <u>9,419,510</u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment.  
Additional information is provided in the notes to the financial schedules beginning on page A-9.

DEPARTMENT OF ENVIRONMENTAL QUALITY  
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Debt Service Fund	Capital Projects Fund	Internal Service Fund	Private Purpose Trust Fund	Permanent Fund	Total
<b>TOTAL REVENUES &amp; TRANSFERS-IN BY CLASS</b>									
Licenses and Permits	\$ 12,500	\$ 11,140,932							\$ 11,153,432
Taxes	91	8	\$ 2,919						3,018
Charges for Services		4,064,404	9,005	\$ (572,450)		\$ 3,997,135			7,498,094
Investment Earnings		15,229,066	99	208			\$ 61,031	\$ 1,048,305	16,338,709
Fines and Forfeits	499,148	1,210,219							1,709,367
Monetary Settlements		232,279							232,279
Capital Contributions		8,262,128		3,415,959					11,678,087
Sale of Documents, Merchandise and Property		13,951	3,075						17,026
Rentals, Leases and Royalties		12,431							12,431
Grants, Contracts, and Donations		1,085,197	138,743				1,802,130		3,026,070
Transfers-in		13,399,900	35,672	418,695				1,200,000	15,054,267
Capital Asset Sale Proceeds		2,672							2,672
Non-monetary Settlements		52,339							52,339
Federal Indirect Cost Recoveries						2,668,860			2,668,860
Miscellaneous	964	262,736		416,289		7,932			687,921
Federal			51,914,389						51,914,389
Total Revenues & Transfers-In	512,703	54,968,262	52,103,902	3,678,701	0	6,673,927	1,863,161	2,248,305	122,048,961
Less: Nonbudgeted Revenues & Transfers-In	502,598	27,553,881	8,568,226	636,117		7,952	1,863,161	2,248,305	41,380,240
Prior Year Revenues & Transfers-In Adjustments	(2,395)	4,522,942	127,186	3,042,584		(187)			7,690,130
Actual Budgeted Revenues & Transfers-In	12,500	22,891,439	43,408,490	0	0	6,666,162	0	0	72,978,591
Estimated Revenues & Transfers-In	121,149	33,513,370	42,369,459		\$ 3,000	6,954,347			82,961,325
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ (108,649)	\$ (10,621,931)	\$ 1,039,031	\$ 0	\$ (3,000)	\$ (288,185)	\$ 0	\$ 0	\$ (9,982,734)
<b>BUDGETED REVENUES &amp; TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS</b>									
Licenses and Permits	\$ 2,002	\$ (1,107,464)							\$ (1,105,462)
Taxes	(809)	(14)	\$ (2,961)						(3,784)
Charges for Services	(50,792)	(6,729,864)	(1,895)			\$ (276,568)			(7,059,119)
Investment Earnings	(11,000)	(131,164)	(47,029)		\$ (3,000)				(192,193)
Fines and Forfeits	(48,050)	(341,784)							(389,834)
Monetary Settlements		(16)							(16)
Capital Contributions		17,918							17,918
Sale of Documents, Merchandise and Property		(2,028)							(2,028)
Rentals, Leases and Royalties		(4)							(4)
Contributions and Premiums						(500)			(500)
Grants, Contracts, and Donations		(934,906)	(146,039)						(1,080,945)
Transfers-in		(1,036,691)							(1,036,691)
Bond Proceeds		(1)							(1)
Federal Indirect Cost Recoveries						(11,117)			(11,117)
Miscellaneous		(355,445)							(355,445)
Federal		(468)	1,236,955						1,236,487
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ (108,649)	\$ (10,621,931)	\$ 1,039,031	\$ 0	\$ (3,000)	\$ (288,185)	\$ 0	\$ 0	\$ (9,982,734)

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment.  
Additional information is provided in the notes to the financial schedules beginning on page A-9.

DEPARTMENT OF ENVIRONMENTAL QUALITY  
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Debt Service Fund	Capital Projects Fund	Internal Service Fund	Private Purpose Trust Fund	Permanent Fund	Total
<b>TOTAL REVENUES &amp; TRANSFERS-IN BY CLASS</b>									
Licenses and Permits	\$ 3,000	\$ 10,018,108							\$ 10,021,108
Taxes	832	2,456	\$ 2,727			\$ 83			6,098
Charges for Services		5,288,642	2,200	\$ 982,245		3,998,445			10,271,532
Investment Earnings		12,078,668		611	\$ 3,916		\$ 59,384	\$ 398,453	12,541,032
Fines and Forfeits	286,524	1,146,710							1,433,234
Monetary Settlements		2,429,988							2,429,988
Sale of Documents, Merchandise and Property		5,465	1,125						6,590
Rentals, Leases and Royalties		7,360							7,360
Grants, Contracts, and Donations		1,394,046	262,595				2,852,470		4,509,111
Transfers-in		5,074,482	30,448	184,336	1,608,350			1,200,000	8,097,616
Capital Asset Sale Proceeds		20,339							20,339
Non-monetary Settlements		15,000							15,000
Federal Indirect Cost Recoveries						2,670,961			2,670,961
Miscellaneous	1,282	2,120				6,057			9,459
Federal		43,118	88,401,734						88,444,852
Total Revenues & Transfers-In	291,638	37,526,502	88,700,829	1,167,192	1,612,265	6,675,546	2,911,854	1,598,453	140,484,280
Less: Nonbudgeted Revenues & Transfers-In	288,638	18,336,891	23,978,066	1,197,892	1,608,855	6,139	2,911,344	1,598,453	49,926,278
Prior Year Revenues & Transfers-In Adjustments		(411,394)	16,399,748	(30,700)		(7,102)	510		15,951,062
Actual Budgeted Revenues & Transfers-In	3,000	19,601,005	48,323,015	0	3,411	6,676,509	0	0	74,606,940
Estimated Revenues & Transfers-In	230,099	22,616,862	58,823,454		5,000	7,589,585			89,265,000
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ (227,099)	\$ (3,015,857)	\$ (10,500,439)	\$ 0	\$ (1,589)	\$ (913,076)	\$ 0	\$ 0	\$ (14,658,060)
<b>BUDGETED REVENUES &amp; TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS</b>									
Licenses and Permits	\$ (7,498)	\$ (1,731,442)							\$ (1,738,940)
Taxes	(809)								(809)
Charges for Services	(50,792)	580,332	\$ (33,248)			\$ (318,696)			177,596
Investment Earnings		41,620			\$ (1,589)				40,031
Fines and Forfeits	(168,000)	(208,239)							(376,239)
Sale of Documents, Merchandise and Property		(30)							(30)
Rentals, Leases and Royalties		1,860							1,860
Contributions and Premiums						(12,000)			(12,000)
Grants, Contracts, and Donations		(83,098)	(91,710)						(174,808)
Transfers-in		(723,110)							(723,110)
Bond Proceeds		(1)							(1)
Federal Indirect Cost Recoveries						(582,380)			(582,380)
Miscellaneous		(26)							(26)
Federal		(893,723)	(10,375,481)						(11,269,204)
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ (227,099)	\$ (3,015,857)	\$ (10,500,439)	\$ 0	\$ (1,589)	\$ (913,076)	\$ 0	\$ 0	\$ (14,658,060)

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DEPARTMENT OF ENVIRONMENTAL QUALITY  
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT	Central Management Program	Enforcement Division	Permitting & Compliance Division	Petro Tank Release Compliance Board	Planning Prevention & Assistance Division	Remediation Division	Total
Personal Services							
Salaries	\$ 3,719,710	\$ 727,406	\$ 10,118,664	\$ 289,361	\$ 4,745,156	\$ 4,277,010	\$ 23,877,307
Hourly Wages			99				99
Employee Benefits	1,120,593	226,802	3,240,495	95,738	1,447,969	1,355,430	7,487,027
Personal Services-Other	(17,462)						(17,462)
Total	4,822,841	954,208	13,359,258	385,099	6,193,125	5,632,440	31,346,971
Operating Expenses							
Other Services	1,662,209	51,590	5,285,619	103,025	3,271,940	30,107,469	40,481,852
Supplies & Materials	312,344	30,682	483,449	4,520	243,474	211,516	1,285,985
Communications	265,852	13,019	219,252	5,005	73,284	102,136	678,548
Travel	61,273	11,823	284,016	6,569	164,778	165,066	693,525
Rent	1,121,026	10,616	150,988		36,342	126,407	1,445,378
Utilities	5,019		8,708			48,354	62,079
Repair & Maintenance	63,367	284	20,956	464	25,294	9,428	119,793
Other Expenses	473,818	267,299	3,082,124	87,099	2,188,510	1,696,999	7,795,849
Total	3,964,908	385,313	9,535,112	206,682	6,003,622	32,467,375	52,563,012
Equipment & Intangible Assets							
Equipment			424,890		12,403	5,375	442,668
Capital leases - equipment			(10,868)				(10,868)
Total			414,022		12,403	5,375	431,800
Grants							
From State Sources			1,635,263				1,635,263
From Federal Sources					3,704,487		3,704,487
Total			1,635,263		3,704,487		5,339,750
Benefits & Claims							
From State Sources				3,712,035			3,712,035
Total				3,712,035			3,712,035
From Other Sources							
Distrib from Priv Purp Trusts			709,554				709,554
Total			709,554				709,554
Transfers-out							
Fund transfers			13,954,907		(5,522,907)	5,684,363	14,116,363
Total			13,954,907		(5,522,907)	5,684,363	14,116,363
Debt Service							
Bonds			185,465		787,366	273,838	1,246,669
Loans				13,178			13,178
Total			185,465	13,178	787,366	273,838	1,259,847
Other Post Employment Benefits							
Other Post Employment Benefits	159,753						159,753
Total	159,753						159,753
Total Expenditures & Transfers-Out	\$ 8,947,502	\$ 1,339,521	\$ 39,793,581	\$ 4,316,994	\$ 11,178,096	\$ 44,063,391	\$ 109,639,085
EXPENDITURES & TRANSFERS-OUT BY FUND							
General Fund	\$ 333,482	\$ 509,750	\$ 1,735,356		\$ 2,616,123	\$ (0)	\$ 5,194,711
State Special Revenue Fund	1,097,495	485,989	26,807,864	\$ 4,316,994	(12,231,906)	29,137,325	49,613,761
Federal Special Revenue Fund	759,999	343,782	7,912,908		19,690,013	14,651,728	43,358,430
Debt Service Fund			2,627,899		1,103,866	274,338	4,006,103
Internal Service Fund	6,756,526						6,756,526
Private Purpose Trust Fund			709,554				709,554
Total Expenditures & Transfers-Out	8,947,502	1,339,521	39,793,581	4,316,994	11,178,096	44,063,391	109,639,085
Less: Nonbudgeted Expenditures & Transfers-Out	61,758	52,122	14,887,758	(3,681)	4,299,753	23,784,784	43,082,494
Prior Year Expenditures & Transfers-Out Adjustments	24,033	3,246	(255,652)	(252,738)	(9,119,504)	176,100	(9,424,515)
Actual Budgeted Expenditures & Transfers-Out	8,861,711	1,284,153	25,161,475	4,573,413	15,997,847	20,102,507	75,981,106
Budget Authority	12,830,067	1,389,081	34,045,409	4,993,057	25,803,492	48,025,282	127,086,388
Unspent Budget Authority	\$ 3,968,356	\$ 104,928	\$ 8,883,934	\$ 419,644	\$ 9,805,645	\$ 27,922,775	\$ 51,105,282
UNSPENT BUDGET AUTHORITY BY FUND							
General Fund	\$ 118,606	\$ 41,495	\$ 697		\$ 24,200		\$ 184,998
State Special Revenue Fund	1,795,507	35,262	5,224,100	\$ 419,644	875,389	11,499,746	19,849,648
Federal Special Revenue Fund	1,756,475	28,171	3,659,137		8,256,056	16,423,029	30,122,868
Capital Projects Fund					650,000		650,000
Internal Service Fund	297,768						297,768
Unspent Budget Authority	\$ 3,968,356	\$ 104,928	\$ 8,883,934	\$ 419,644	\$ 9,805,645	\$ 27,922,775	\$ 51,105,282

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Additional information is provided in the notes to the financial schedules beginning on page A-9.

DEPARTMENT OF ENVIRONMENTAL QUALITY  
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT	CENTRAL MANAGEMENT PROGRAM	ENFORCEMENT DIVISION	PERMITTING & COMPLIANCE DIVISION	PETRO TANK RELEASE COMPENSATION BOARD	PLANNING PREVENTION & ASSISTANCE DIVISION	REMEDIAATION DIVISION	TOTAL
Personal Services							
Salaries	\$ 3,558,524	\$ 733,435	\$ 9,922,044	\$ 275,657	\$ 5,102,293	\$ 4,056,878	\$ 23,648,831
Employee Benefits	1,074,690	223,216	3,122,186	93,348	1,549,319	1,271,841	7,334,600
Personal Services-Other	49,269						49,269
Total	<u>4,682,483</u>	<u>956,651</u>	<u>13,044,230</u>	<u>369,005</u>	<u>6,651,612</u>	<u>5,328,719</u>	<u>31,032,700</u>
Operating Expenses							
Other Services	1,391,260	13,116	3,491,476	277,263	6,455,132	19,329,575	30,957,822
Supplies & Materials	266,415	24,330	440,715	5,323	279,798	154,191	1,170,772
Communications	218,624	13,150	230,542	6,147	89,870	96,429	654,762
Travel	27,220	9,762	229,463	7,094	152,173	107,968	533,680
Rent	1,408,167	18,923	184,047		53,214	75,653	1,740,004
Utilities	5,122		10,151			154,238	169,511
Repair & Maintenance	28,978		18,342	65	19,021	13,863	80,269
Other Expenses	455,068	239,292	3,118,853	92,923	1,853,790	1,652,478	7,412,404
Total	<u>3,800,854</u>	<u>318,573</u>	<u>7,723,589</u>	<u>388,815</u>	<u>8,902,998</u>	<u>21,584,395</u>	<u>42,719,224</u>
Equipment & Intangible Assets							
Equipment			2,021,471			32,050	2,053,521
Total			<u>2,021,471</u>			<u>32,050</u>	<u>2,053,521</u>
Grants							
From State Sources			1,632,053				1,632,053
From Federal Sources					4,644,463		4,644,463
Total			<u>1,632,053</u>		<u>4,644,463</u>		<u>6,276,516</u>
Benefits & Claims							
To Individuals				3,500			3,500
From State Sources				4,028,418			4,028,418
Total				<u>4,031,918</u>			<u>4,031,918</u>
From Other Sources							
Distrib from Priv Purp Trusts			713,773				713,773
Total			<u>713,773</u>				<u>713,773</u>
Transfers-out							
Fund transfers			227,904		26,069,261	1,545,169	27,842,334
Total			<u>227,904</u>		<u>26,069,261</u>	<u>1,545,169</u>	<u>27,842,334</u>
Debt Service							
Bonds			184,336		932,825	271,038	1,388,199
Loans				19,213			19,213
Total			<u>184,336</u>	<u>19,213</u>	<u>932,825</u>	<u>271,038</u>	<u>1,407,412</u>
Other Post Employment Benefits							
Other Post Employment Benefits	163,243						163,243
Total	<u>163,243</u>						<u>163,243</u>
Total Expenditures & Transfers-Out	<u>\$ 8,646,580</u>	<u>\$ 1,275,224</u>	<u>\$ 25,547,356</u>	<u>\$ 4,808,951</u>	<u>\$ 47,201,159</u>	<u>\$ 28,761,371</u>	<u>\$ 116,240,641</u>
EXPENDITURES & TRANSFERS-OUT BY FUND							
General Fund	\$ 194,324	\$ 544,340	\$ 1,785,922		\$ 2,746,004	\$	\$ 5,270,590
State Special Revenue Fund	1,366,368	438,601	14,128,472	\$ 4,808,951	2,910,474	\$ 18,934,452	42,587,318
Federal Special Revenue Fund	381,512	292,283	8,734,412		40,410,356	9,555,381	59,373,944
Debt Service Fund			184,336		1,134,325	271,538	1,590,199
Internal Service Fund	6,704,376		440				6,704,816
Private Purpose Trust Fund			713,774				713,774
Total Expenditures & Transfers-Out	<u>8,646,580</u>	<u>1,275,224</u>	<u>25,547,356</u>	<u>4,808,951</u>	<u>47,201,159</u>	<u>28,761,370</u>	<u>116,240,641</u>
Less: Nonbudgeted Expenditures & Transfers-Out	226,953	14,902	1,196,219	(1,487)	26,300,850	13,722,714	41,460,151
Prior Year Expenditures & Transfers-Out Adjustments	<u>(270,253)</u>	<u>(16,563)</u>	<u>28,567</u>	<u>(281,044)</u>	<u>(136,715)</u>	<u>(5,417,434)</u>	<u>(6,093,442)</u>
Actual Budgeted Expenditures & Transfers-Out	8,689,880	1,276,885	24,322,570	5,091,482	21,037,024	20,456,091	80,873,932
Budget Authority	15,951,243	1,424,672	33,889,577	5,861,663	37,469,116	48,634,018	143,230,289
Unspent Budget Authority	<u>\$ 7,261,363</u>	<u>\$ 147,787</u>	<u>\$ 9,567,007</u>	<u>\$ 770,181</u>	<u>\$ 16,432,092</u>	<u>\$ 28,177,927</u>	<u>\$ 62,356,357</u>
UNSPENT BUDGET AUTHORITY BY FUND							
General Fund	\$ 75,903	\$ 45,876	\$ 399,545		\$ 88,171	\$	\$ 609,495
State Special Revenue Fund	2,643,320	72,078	6,193,331	\$ 770,181	785,156	\$ 14,581,732	25,045,799
Federal Special Revenue Fund	4,331,580	29,833	2,974,132		14,808,765	13,596,195	35,740,503
Capital Projects Fund					750,000		750,000
Internal Service Fund	210,560						210,560
Unspent Budget Authority	<u>\$ 7,261,363</u>	<u>\$ 147,787</u>	<u>\$ 9,567,007</u>	<u>\$ 770,181</u>	<u>\$ 16,432,092</u>	<u>\$ 28,177,927</u>	<u>\$ 62,356,357</u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment.  
Additional information is provided in the notes to the financial schedules beginning on page A-9.

# Department of Environmental Quality

## Notes to the Financial Schedules

### For the Two Fiscal Years Ended June 30, 2012

## 1. Summary of Significant Accounting Policies

### **Basis of Accounting**

The department uses the modified accrual basis of accounting, as defined by state accounting policy, for its Governmental fund category (General, State Special Revenue, Federal Special Revenue, Capital Projects, Debt Service, and Permanent). In applying the modified accrual basis, the department records:

- ♦ Revenues when it receives cash or when receipts are realizable, measurable, earned, and available to pay current period liabilities.
- ♦ Expenditures for valid obligations when the department incurs the related liability and it is measurable, with the exception of the cost of employees' annual and sick leave. State accounting policy requires the department to record the cost of employees' annual and sick leave when used or paid.

The department uses accrual basis accounting for its Proprietary (Internal Service) and Fiduciary (Private-Purpose Trust) fund categories. Under the accrual basis, as defined by state accounting policy, the department records revenues in the accounting period when realizable, measurable, and earned, and records expenses in the period incurred when measurable.

Expenditures and expenses may include: entire budgeted service contracts even though the department receives the services in a subsequent fiscal year; goods ordered with a purchase order before fiscal year-end, but not received as of fiscal year-end; and equipment ordered with a purchase order before fiscal year-end.

### **Basis of Presentation**

The financial schedule format was adopted by the Legislative Audit Committee. The financial schedules are prepared from the transactions posted to the state's accounting system without adjustment.

The department uses the following funds:

### **Governmental Fund Category**

- ♦ **General Fund** – to account for all financial resources except those required to be accounted for in another fund.

- ♦ **State Special Revenue Fund** – to account for proceeds of specific revenue sources other than private-purpose trusts or major capital projects that are legally restricted to expenditures for specific state program purposes. Department State Special Revenue Funds include permitting and compliance activity for Air Quality Permits, Public Water Supply, Water and Waste Water Operator Certification, Subdivision Review, Montana Pollutant Discharge Elimination System (MPDES), Hard Rock, Coal, Uranium and Opencut Mining, Major Facility Siting, Asbestos Control, Hazardous Waste Management, Junk Vehicle Disposal, Septic Tank Pumper Certification and disposal site inspections, Solid Waste Management and Underground Storage Tanks. In addition to the permitting and compliance activities, the State Special Revenue Fund includes the Departments Alternate Energy Loan Program and State Building Energy Conservation Program, Orphan Share, Petroleum Tank Release Cleanup, Hard Rock Mining Reclamation, Environmental Quality Protection Fund (State Superfund), and various reclamation bond forfeiture and settlement accounts including Upper Blackfoot Mining Complex, Streamside Tailings, Montana Post and Pole, and Clark Fork remedial action accounts.
- ♦ **Federal Special Revenue Fund** – to account for activities funded from federal revenue sources. Department Federal Special Revenue Funds include federal assistance programs such as the Water Pollution Control and Drinking Water State Revolving Funds, Performance Partnership Grants, Abandoned Mine Lands Reclamation Grant, as well as other federal grants and agreements.
- ♦ **Debt Service Fund** – to account for accumulated resources for the payment of general long-term debt principal and interest. The department uses this fund to record debt service principal and interest payments for state Hard Rock Mining Reclamation Bonds, Energy Conservation Bonds, and Comprehensive Environmental Response, Compensation and Liability Bonds.
- ♦ **Capital Projects Fund** – to account for financial resources used for the acquisition or construction of major capital facilities, other than those financed by proprietary funds or trust funds. The department uses this fund to account for resources recovered from state agencies and component units for repayment of State Buildings Energy Conservation Program projects that are legally committed for construction of future state Building energy conservation projects.
- ♦ **Permanent Fund** – to account for financial resources that are permanently restricted to the extent that only earnings, and not principal, may be used for purposes that support the department's programs. The legislature created a trust fund in fiscal year 2005-06 to cover the long-term costs of water treatment in the area of the Zortman-Landusky mines. The trust is financed from an annual transfer of \$1.2 million from the orphan share fund until fiscal year 2017-18 or until the balance reaches \$19.3 million.

## **Proprietary Fund Category**

- ♦ **Internal Service Fund** – to account for the financing of goods or services provided by one department or agency to other departments or agencies of state government or to other governmental entities on a cost-reimbursement basis. Department Internal Service Funds include indirect charges assessed against all units of the department by the Central Management Program for providing department-wide support functions and services.

## **Fiduciary Fund Category**

- ♦ **Private-Purpose Trust Fund** – to account for activity of any trust arrangement not properly reported in a pension fund or an investment trust fund where the principal and income benefit individuals, private organizations, or other governments. Department private-purpose trust funds include financial resources held in trust related to permitting activities.

## **2. General Fund Balance**

The negative fund balance in the General Fund does not indicate overspent appropriation authority. The department has authority to pay obligations from the statewide General Fund within its appropriation limits. The department expends cash or other assets from the statewide fund when it pays General Fund obligations. The department's outstanding liabilities exceed the assets it has placed in the fund, resulting in negative ending General Fund balances for each of the fiscal years ended June 30, 2011, and June 30, 2012.

## **3. Direct Entries to Fund Balance**

Direct entries to fund balances in the General, Special Revenue, Federal Special Revenue Fund, Debt Service, and Capital Projects funds include entries generated by SABHRS to reflect the flow of resources within individual funds shared by separate agencies.

## **4. Prior Year Revenues and Transfers-In Adjustments**

Prior Year Revenues and Transfers-In Adjustments in the Federal Special Revenue Fund for fiscal year 2010-11 consists primarily of federal reimbursements for ARRA funded State Revolving Fund loans that had been deferred in fiscal year 2009-10.

## **5. Accounting Entity Transfers**

The fund transfers of \$26.1 million on the Schedule of Total Expenditures and Transfers-Out in fiscal year 2010-11 in the Planning, Prevention, and Assistance program are related to the transfer of federal funds for the Drinking Water and

Clean Water Revolving Fund programs to the Department of Natural Resources and Conservation for disbursement to local governments for construction of water and wastewater system improvements.

The (\$5,522,907) in fund transfers in the Planning Prevention and Assistance Division on the Schedule of Total Expenditures and Transfers-Out for the fiscal year ended June 30, 2012, included a (\$14,447,491) reversal of transfers initially made from the General Fund and federal State Energy Program American Recovery and Reinvestment Act grant funds to the Capital Projects Fund at the Department of Administration to finance energy conservation improvements in state buildings. The reversal, specified by state accounting policy MOM 345 XII, offsets nonrelated transfers to the Drinking Water and Clean Water state Revolving Funds in fiscal year 2011-12.

DEPARTMENT OF  
ENVIRONMENTAL QUALITY

DEPARTMENT RESPONSE





December 5, 2012

Ms. Tori Hunthausen, CPA  
Legislative Auditor  
Legislative Audit Division  
PO Box 201705  
Helena, MT 59620-1705

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LEGISLATIVE AUDIT DIV.

RE: Financial-Compliance Audit #12-16

Dear Ms. Hunthausen:

Thank you for the opportunity to respond to the Financial-Compliance Audit #12-16 for the Department of Environmental Quality. We have reviewed the findings and recommendations contained in the report. Our responses are as follows:

**Invalid Accruals**

**The department recorded expenditures for indirect costs and legal expenses that did not meet the valid obligation criteria set in state law.**

**Recommendation #1**

**We recommend the department limit the accrual of expenditures to those allowed by state law and policy.**

**Response: Concur.**

This recommendation identified two circumstances where DEQ encumbered spending authority that the legislative auditors believe was against state accounting policy.

The first issue relates to whether the encumbrance of indirect costs to administer operating expenses, including contracts, constitute valid obligations. We believed our annual Negotiation Agreement with EPA, establishing indirect rates and limitations, constituted a valid obligation therefore complied with state accounting policy. LAD disagreed with the DEQ's determination that indirect costs associated with accrued contracts were valid obligations and allowable encumbrances. The DEQ will concur with the legislative auditors' recommendation and will research alternative methods of applying indirect costs in compliance with state accounting policy. This will include investigating the DOA accounting rules for possible options and contacting other state agencies who may have developed acceptable solutions to the issue.

The second issue identified two legal accruals that did not meet valid obligation criteria set in state law. The DEQ concurs with the legislative auditors. The two accruals have been cancelled.

#### **Hard-rock Transfers**

**The department should transfer balances in excess of debt service requirements from the hard-rock debt service fund as required by law.**

#### **Recommendation #2**

**We recommend the department transfer balances in excess of those needed for the debt service payments from the hard-rock debt service fund to the hard-rock state special revenue fund as required by state law.**

**Response: Concur.**

The metalliferous mines license tax is now being transferred to the hard-rock debt service fund as required by law. The DEQ will monitor the fund balances regularly to transfer amounts in excess of debt service to the hard-rock state special revenue account.

#### **Storm Water Permits**

**The department charged storm water permit fees in excess of rates set in administrative rules.**

#### **Recommendation #3**

**We recommend the department implement a procedure to achieve compliance with the fee schedule for storm water permits set in administrative rules.**

**Response: Concur.**

For the short term, we have installed detective process controls to identify errors. The DEQ is developing a database that will strengthen the invoicing process with documentation including written procedures that will achieve compliance with the administrative rules by the Spring of 2013.

#### **Abandoned Mine Reclamation Account**

**The department maintains the abandoned mine reclamation account in the state special revenue fund rather than the federal special revenue fund as specified in state law.**

#### **Recommendation #4**

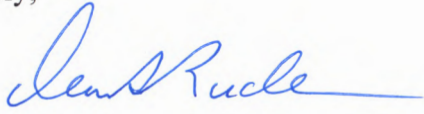
**We recommend the department record the abandoned mine reclamation account moneys in the federal special revenue fund as required by state law.**

**Response: Concur.**

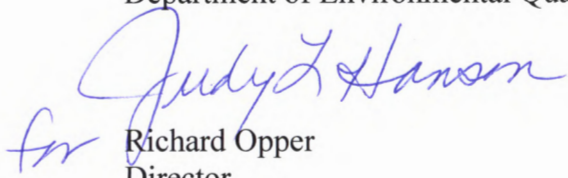
The DEQ is in the process of transferring the AML set aside funds from the state special revenue funds to federal special revenue funds as recommended. The process for establishing the funds and moving the investments should be accomplished by March 2013.

We want to thank you and your staff for your professionalism and fairness during the audit field work and conferences. We also appreciate the willingness of the auditors to discuss recommendations and respond to our questions. The audit process is viewed by DEQ as an opportunity to improve the department's operations and performance.

Sincerely,

A handwritten signature in blue ink, appearing to read "Dean Rude", is written over a light gray rectangular background.

Dean Rude  
Chief Financial Officer  
Department of Environmental Quality

A handwritten signature in blue ink, appearing to read "Judy L. Hanson", is written over a light gray rectangular background. To the left of the signature, the word "for" is handwritten in blue ink.

for Richard Opper  
Director  
Department of Environmental Quality